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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

VIA LICENSING CORPORATION, Plaintiff, v. LG ELECTRONICS, INC. Defendant.	Case No. 3:17-cv-4919 **COMPLAINT FOR BREACH OF CONTRACT SEEKING DAMAGES AND SPECIFIC PERFORMANCE** **JURY TRIAL DEMANDED**

REDACTED VERSION OF DOCUMENT SOUGHT TO BE SEALED

Plaintiff VIA LICENSING CORPORATION ("Via"), by and through its undersigned counsel, for its Complaint against Defendant LG ELECTRONICS, INC. ("LGE," "Licensee," or "Defendant"), alleges as follows:

NATURE OF THE ACTION

1. This is a breach of contract action, which Via brings to remedy LGE's breaches of a patent license agreement, the Advanced Audio Coding Patent License Agreement (the "AAC PLA"). LGE has repeatedly breached the AAC PLA by (i) blocking Via's ability to conduct an Audit of LGE's books and records, a process with which LGE is obligated to cooperate pursuant to section 4.7 of the AAC PLA ("Books and Records"), and (ii) failing to pay the License Fees due under section 4.3 of the AAC PLA ("License Fees").

2. Since February 2015, Via has sought LGE's contractually-required participation in a full and fair audit of LGE's books and records. LGE, however, has breached its obligations to cooperate, and refused to allow a full and fair audit of its sales under the AAC PLA. LGE's prolonged interference with the audit process has prevented Via from determining the precise amount of LGE's underpayment of License Fees, which—as explained below—is believed to be [redacted].

3. In this breach of contract action, Via seeks (i) specific performance of LGE's Audit obligations and (ii) an amount of damages to be proven at trial, including the License Fees due under the AAC PLA; interest at the contract-specified rate on those late payments as provided in section 4.5.3 of the AAC PLA; and attorneys' fees and costs associated with this action as provided in section 9.9 of the AAC PLA.

PARTIES

4. Plaintiff Via is a Delaware corporation licensed to do business and doing business in the State of California, with its principal place of business at 1275 Market Street, San Francisco, California 94103. Via, a patent pool administrator, offers licenses to groups or "pools" of patents essential to certain standardized technologies. As relevant here, Via is the patent pool administrator for a group of patents essential to the Advanced Audio Coding ("AAC") technology, and Via acts on behalf of a group of AAC patent owners to license AAC

technology to parties that manufacture, sell, and/or supply products incorporating AAC technology, such as LGE.

5. Defendant LG Electronics, Inc. is a Korean corporation, with a principal place of business at Seoul National Univ. Research Park, San 4-1, Nakseongdae-Dong, Gwanak-Gu, Seoul 151-919, Korea. LGE is engaged in wholesale distribution of consumer electronics. Recognizing the substantial value of AAC to its products, LGE has elected to incorporate AAC technology into hundreds of millions of products LGE has sold. LGE has sold and distributed its products, including those incorporating AAC technology, in this judicial district; LGE maintains offices in this judicial district; and LGE has filed legal actions in this judicial district multiple times, including as recently as 2014.

JURISDICTION AND VENUE

6. This Court has diversity jurisdiction over each of these claims pursuant to 28 U.S.C. § 1332 because the citizenship of the parties is diverse and the matter in controversy exceeds $75,000, exclusive of interest and costs.

7. Venue and personal jurisdiction over LGE is proper in the Northern District of California pursuant to 28 U.S.C. §§ 1391(b)-(c).

8. Moreover, venue also is proper in this District because section 9.9 of the AAC PLA provides: "[t]his Agreement shall be deemed to have been made and entered into in San Francisco, California. The Parties hereby submit to the jurisdiction of, and waive any venue objections against, the United States District Court for the Northern District of California, San Francisco Division and the Superior Court of the State of California, San Francisco County, in any litigation arising out of the Agreement."

FACTUAL BACKGROUND

9. AAC is an audio compression technology that was first identified in 1997 by two industry standard setting organizations: (i) the International Organization for Standardization ("ISO") and (ii) the International Electrotechnical Commission ("IEC"). AAC provides high-quality audio at lower bit-rates than previous audio compression formats. As a consequence, devices that employ AAC can offer high-quality audio while, among other

benefits, saving transmission bandwidth, battery life, and device memory space.

10. Because of its benefits, AAC technology has been widely adopted. AAC technology, for example, is implemented in cellular phones, televisions, digital radios, game consoles and many well-known consumer electronics products, including the Apple iPhone, iPod, iPad, Apple TV, and Apple Watch; the Nintendo Wii and 3DS; Microsoft's Xbox, Lumia, and Nokia branded phones; Sony's PlayStation 3, PlayStation Vita, TVs, cameras, portable music players, and tablets; the Amazon Kindle Fire; the Roku Digital Media Player; Nikon cameras; and many other consumer electronic devices. AAC technology is also implemented in various personal computer-based products and platforms, including Microsoft Windows; Apple OS X and iTunes; Adobe Flash; and RealNetworks' RealPlayer. Currently, there are more than 800 users of AAC technology who license AAC technology through an AAC PLA from Via.

11. Via offers the market a license to a group or "pool" of patents, each of which is essential to implement AAC technology. The terms and conditions of that license are set out in the AAC PLA, a single license agreement that efficiently provides rights to use multiple essential AAC patents—owned by many different entities—for a single royalty. The essential AAC patents licensed through the AAC PLA are owned or controlled by entities that participate in Via's patent pools as licensors. The licensors authorize Via to license essential patents on their behalf. All patents licensed through the AAC PLA have been or are members of patent families that have been reviewed by an independent expert who determined that the patent or a patent in the patent family is essential to AAC technology.

12. The AAC PLA is not only an efficient and low-cost licensing mechanism, it also provides a level playing field among users of AAC technology because the same terms are available to all licensees who sell licensed products. Although users of AAC technology are free to negotiate and enter into bilateral licenses with the individual patent owners, many users of AAC technology choose to enter an AAC PLA. Licensees, such as LGE, who refuse to honor the terms of the AAC PLA compete unfairly with other users of AAC technology that honor their obligations under the AAC PLA.

The AAC PLA

13. On January 21, 2009 (the "Effective Date"), LGE entered into the AAC PLA with Via. The AAC PLA is attached hereto as Exhibit A.

14. Under the AAC PLA, in exchange for a license to numerous AAC patents, LGE agreed, among other things, to pay License Fees to Via for Licensed Products sold or otherwise supplied under the agreement. (AAC PLA § 4.3)

15. The AAC PLA defines "Licensed Product" as follows:

> (a) [A] complete (or substantially complete), ready-to-use End User decoding and/or encoding device or software, the making, using, importing, Sale or Otherwise Supplying of which would, in the absence of a license, infringe directly or indirectly a Licensed Patent, or (b) a component decoding and/or encoding device or software, the making, using, importing, Sale, or supplying of which would, in the absence of a license, infringe directly or indirectly a Licensed Patent, that is Sold or Otherwise Supplied directly to an End User. (AAC PLA § 1.15)

16. The AAC defines "Otherwise Supply" or "Otherwise Supplied" as "to offer for sale, distribute, dispose, rent, lend, lease, commercialize, exploit, or otherwise transfer without compensation, consideration, or money." (AAC PLA § 1.18)

17. The license granted by the AAC PLA does not include the right to use the patented AAC technology in any product other than "Licensed Products for which License Fees have been paid." (AAC PLA § 2.3.1)

18. The AAC PLA requires LGE to pay License Fees for its and its Affiliates Licensed Products "[w]ithin 45 days of the end of each calendar quarter." (AAC PLA § 4.3) The parties agreed in the AAC PLA that late payments, which are defined as payments "received more than 30 days after becoming due," accrue interest at the rate of 10% per year, compounded monthly. (AAC PLA § 4.5.3)

19. Appendix B of the AAC PLA specifies the License Fees owed, depending on the type of device in which AAC technology is implemented. For example, LGE was obligated to pay a "Per Unit Fee" for Licensed Products (other than PC Software), and the "Per Unit Fee" depends on annual sales volume, ranging from $0.98 per unit for the first 500,000 units sold to $0.15 per unit for each unit over 50 million sold.

20. In order, among other things, to determine the royalty payments actually due, the AAC PLA requires LGE to provide Quarterly Reports within 30 days after the end of every calendar quarter following the effective date of the AAC PLA. These reports must include, among other things, the quantity and a description of Licensed Products sold or otherwise supplied during the quarter. (AAC PLA § 4.2)

21. Unlike many other commercial transactions, licenses for intellectual property that compute royalties on a per unit basis rely on licensees to honestly report to the licensor the amount of products subject to royalties. Typically, it is only the licensee that actually knows for certain what it has sold and in what volume. To protect licensors from underreporting by licensees, license agreements typically require that licensees maintain books and records showing sales of licensed products and allow licensors to Audit such books and records to determine whether submitted royalty reports are accurate. The AAC PLA includes such a requirement.

22. The AAC PLA (i) requires that LGE and its Affiliates "keep true, correct, and complete books and records of all sales, licenses, leases, uses, returns, disposals, or other transfers of Licensed Products under this Agreement for at least six years from the date of their creation in order to confirm the accuracy of all of Licensee's reports and payments" and (ii) grants Via the right to "select an independent and professionally licensed accountant ('Auditor') to audit, inspect and make abstracts of such books and records, at [LGE's] facility (or elsewhere as determined by the Auditor) as necessary to verify their accuracy and that of all other written reports and statements provided for herein, and verify or determine fees paid or payable under this Agreement ('Audit')." (AAC PLA § 4.7) The AAC PLA also provides that LGE "unconditionally and irrevocably guarantees performance under this Agreement by all its Affiliates," specifically including the record keeping obligations of section 4.7. (AAC PLA § 2.4.1)

23. The AAC PLA further provides that "[i]f the Audit shows an underpayment, then [LGE] shall immediately pay the amounts due, plus accrued interest, plus the cost of the Audit if applicable, after receiving notice of the results of the applicable Audit.

[LGE] will pay the cost of the Audit if, for any calendar year under inspection in that Audit, an underpayment of five percent or more is found, based on payments or reports received prior to notice of the Audit." (AAC PLA § 4.7)

24. In addition to the License Fees described above, the AAC PLA provides that LGE will report and pay License Fees, plus interest, for any Licensed Products that LGE sold or otherwise supplied prior the Effective Date of the AAC PLA. (AAC PLA § 4.6.4)

25. Pursuant to section 6.1, the AAC PLA between LGE and Via expired on January 21, 2014 (five years after the Effective Date).

26. The AAC PLA provides that "[u]pon expiration or termination of this Agreement, the payment date of all monies due and the reporting date of all Quarterly Reports shall automatically be accelerated so that they shall all become due, payable, and deliverable no later than thirty days after the effective date of expiration or termination of this Agreement." (AAC PLA § 6.5.1)

27. The AAC PLA further provides that "[a]ny expiration or termination of this Agreement . . . shall not relieve Licensee of its obligation to account for and make payments pursuant to the terms of this Agreement for all Licensed Products Sold or Otherwise Supplied by Licensee either prior or subsequent to the expiration or termination date." (AAC PLA § 6.5.2)

LGE's Breaches of the AAC PLA

28. On February 26, 2015, Via sent an Audit notice to LGE, exercising its contractual right to verify the accuracy of LGE's royalty reports by examining books and records for sales or other supply of Licensed Products.

29. In response to that notice, LGE requested that Via [redacted]

[redacted]

30. As the time for the agreed-to Audit approached, Via engaged Connor N Corporation ("Connor")—an independent, certified public accounting firm—to conduct the Audit of LGE's books and records and determine the amount of License Fees LGE owed to Via under the AAC PLA. Despite LGE's earlier pledge to Via to commence the Audit in good faith, LGE continued to delay and frustrate the Audit.

31. [redacted] (i) LGE was contractually obligated to retain relevant records "for at least six years" under the AAC PLA (AAC PLA § 4.7); (ii) the term of the AAC PLA started January 21, 2009; and (iii) the AAC PLA provides for LGE to pay License Fees, plus interest, for Licensed Products sold prior to January 21, 2009 (AAC PLA § 4.6.4).

32. [redacted]

33. LGE agreed to Via's proposal, and the Audit field work commenced on June 20, 2016. When the Audit commenced, however, LGE continued to frustrate the Audit and breach its contractual and other commitments to Via.

34. [redacted]

35. [redacted]

36. [redacted]

37. [redacted]

38. [redacted]

39. The AAC PLA obligates LGE to provide sales data from these business units, and LGE has not done so in breach of contract.

40. [redacted]

41. [redacted]

42. [redacted]

[redacted]

43. [redacted] Exhibit B to this Complaint.

44. [redacted]

45. [redacted]

46. [redacted]

47. [redacted]

48. [redacted]

49. The ultimate impact of LGE's breaches is that Via (and the many patent owners that Via represents) have not received License Fees that LGE owes them, and they cannot determine with precision the full amount of LGE's underpayment based on LGE's incomplete, limited and unverifiable books and records provided during the audit process.

50. In the absence of complete records with which to conduct an Audit, Via and its Auditor have estimated the License Fees owed by LGE based on reliable and conservative industry-standard sales data, along with the information provided in the Excel file that LGE produced in July 2017. Using a four-year Audit period and a conservative calculation, LGE failed to report and pay royalties on [redacted] products that utilize AAC technology. License Fees due under the AAC PLA on these unreported products plus interest amounts to approximately [redacted]. Via expects that the actual amount of License Fees owed by LGE is substantially higher than that conservative estimate, which covers only a four-year exemplary time period and not the entire term of the AAC PLA or the pre-Effective Date time period. Via expects that a complete Audit, or discovery in this action, will reveal the full amount of LGE's underpayment.

FIRST CAUSE OF ACTION

(Breach of Contract - Specific Performance)

51. Via incorporates by reference each of the allegations in paragraphs 1 through 50 of this Complaint as if fully set forth herein.

52. LGE has breached the AAC PLA, a valid and enforceable agreement, by failing to provide Via's Auditor with books and records sufficient to determine the number of Licensed Products sold or otherwise supplied by LGE for at least a six year period prior to February 25, 2015.

53. Via has fully complied with its obligations under the AAC PLA.

54. Without access to the data LGE is required to provide (but has refused to provide), and a complete and fair Audit for the entire scope of the AAC PLA period, Via is unable to ascertain with specificity the full amount of LGE's underpayment of License Fees, including LGE's sales prior to the Effective Date of the AAC PLA for which LGE is required to pay royalties under Section 4.6.4 of the AAC PLA.

55. There is no remedy at law that can adequately substitute for LGE's actual compliance with its contractual commitment to provide accurate books and records of its and its Affiliates sales or other supply of Licensed Products for a six-year period prior to February 25, 2015.

56. Based on the foregoing, Via seeks a judgment ordering LGE to specifically perform its Audit obligations, which are set forth clearly in the AAC PLA and in instructions from Connor.

57. Via is further entitled to its attorneys' fees and costs incurred in this action, as provided in the AAC PLA.

SECOND CAUSE OF ACTION

(Breach of Contract - Damages)

58. Via incorporates by reference each of the allegations in paragraphs 1 through 50 of this Complaint as if fully set forth herein.

59. LGE has breached the AAC PLA, a valid and enforceable contract, by

failing to (i) cooperate with Via to conduct an Audit of LGE's books and records; and (ii) pay License Fees and interest owed under the AAC PLA, including fees and interest owed for Licensed Products Sold or Otherwise Supplied prior to the Effective Date of the AAC PLA, as required under Section 4.6.4 of the AAC PLA.

60. Via has fully complied with its obligations under the AAC PLA.

61. Via has been damaged by LGE's breach of contract in an amount to be determined at trial.

62. Via is further entitled to interest, fees and costs incurred by the independent Auditors and its attorneys' fees and costs incurred in this action, as provided in the AAC PLA.

THIRD CAUSE OF ACTION

(Breach of the Covenant of Good Faith and Fair Dealing)

63. Via incorporates by reference the allegations of paragraphs 1 through 50 of this Complaint as though fully set forth herein.

64. The AAC PLA includes, by operation of California law, a covenant of good faith and fair dealing. This covenant imposed a duty on all parties to the AAC PLA to deal fairly and in good faith with one another in all matters relating to the Agreement. Via has fully complied with the AAC PLA, including its obligations under the covenant of good faith and fair dealing.

65. LGE has breached the covenant of good faith and fair dealing in at least two ways: (i) by frustrating Via's ability to conduct a complete and fair Audit, and thus determine with precision the amount of LGE's underpayment of License Fees and (ii) by engaging in bad faith conduct designed to avoid paying License Fees on SKD and CKD products manufactured abroad.

66. LGE's conduct has deprived Via of substantial benefits of its agreements with LGE; Via has been damaged in an amount to be determined at trial; and Via is further entitled to interest and its attorneys' fees and costs incurred in this action, as provided in the AAC PLA.

DEMAND FOR JURY TRIAL

67. Please take notice that Plaintiff Via demands a trial by jury in this action.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff VIA LICENSING CORPORATION prays for the following relief:

A. For damages for breach of contract in an amount to be determined at trial, but no less than the jurisdictional amount of this Count;

B. For an order for specific performance of the Audit obligations under Section 4.7 of the AAC PLA;

C. For attorneys' fees incurred in connection with this action, pursuant to the Section 9.9 of the AAC PLA;

D. For contractual interest as provided under the Section 4.5.3 of the AAC PLA;

E. For Audit expenses as provided under the Section 4.7 of the AAC PLA;

F. For general, special, and consequential damages according to proof at trial;

G. For prejudgment interest to the extent allowed by law; and

H. For such other and further relief as the Court deems just and proper.

Dated: August 23, 2017

/s/ Laura Kabler Oswell

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